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IRS Issues Guidance to Hurricane Victims Claiming Casualty Losses; Safe Harbor Methods Available for Individuals

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WASHINGTON — The IRS issued guidance today to assist Hurricane Katrina, Rita and Wilma victims claiming casualty and theft losses on their individual income tax returns.

The guidance, outlined in Revenue Procedure 2006-32, provides information on several safe harbor methods that individual taxpayers may use in determining their casualty and theft loss deductions under section 165 of the Internal Revenue Code. The safe harbor methods apply to personal-use residential real property and certain personal belongings damaged or destroyed as a result of hurricanes Katrina, Rita or Wilma.

The revenue procedure provides three safe harbor methods that individuals may use to determine the decrease in fair market value of personal-use residential real property. The revenue procedure also provides a fourth safe harbor method that individuals may use to determine the fair market value of certain personal belongings immediately before Hurricanes Katrina, Rita or Wilma.

These safe harbor methods provide individuals, who may have lost their records, or otherwise are unable to determine proper values, with optional ways to determine the decrease in fair market value of personal use residential real property and the pre-hurricane value of certain personal belongings. However, individuals may use the methods of determining these values described in Publication 547, Casualties, Disasters, and Thefts, rather than a safe harbor method.

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